APPENDIX A: OVERVIEW OF DOLLAR TREE'S EVOLUTION

Merchandise/Category Mix		Box Economics (LTM)			Format
Consumables (est. GM%: ~25%)	**46%**	**Average box size (sqft): 8,671**		**# of stores: 8,177**	**SKUs per Store**
o.w. Food	*25%*		**Per store**	**Per sqft**	7,250-8,000
o.w. Household Products	*8%*	**Sales**	**1,950,024**	**224.9**	**Real Estate**
o.w. Health & Beauty	*8%*	**Gross Profit**	**687,174**	**79.3**	Mostly suburban
Discretionary (est. GM%: ~50%)	**54%**	*% Margin*	35.2%		**Target Customer**
o.w. Seasonal	*6%*	**SG&A**	**(422,152)**	**(48.7)**	Wide range
o.w. Variety	*48%*	*% Margin*	(21.6%)		**Price Points**
o.w. Imported Direct	*42%*	**EBIT**	**265,022**	**30.6**	$1.25
o.w. Domestic Closeout	*<10%*	*% Margin*	13.6%		$3.00 | $5.00

Customer Segmentation

Customer Type	Passionate	Monthly	Infrequent	New	Total
% of Sales	25%	50%	20%	5%	**100%**
Implied LTM Sales ($mm)	3,964	8,039	3,332	847	**16,183**
# of Households (mm)	4	21	66	3	**94**
Avg Annual Trips	69	22	5	5	**12**
Average Basket ($)	14.36	17.40	10.10	14.00	**12.00**

History: In 1986, after growing their toy store concept to 130 stores, Doug Perry and Macon Brock were emboldened to start a new concept with broader appeal. Following Dollar General's 1983 decision to abandon the $1 price point to match the breadth and quality of merchandise offered by competitor Family Dollar, the duo saw an opportunity to fill the void with their own spin on the $1 fixed-price model and started out with 5 "Only $1" stores. In 1991, they sold K&K Toys and re-invested the proceeds into Only $1's expansion. In 1993, the name of the company was changed to Dollar Tree to provide flexibility with long-term price points. Today Dollar Tree has 8,177 stores – second only to DG – **how did they do it?**

Merchandising: Unable to match the traditional dollar stores procurement scale/leverage with consumables vendors, Dollar Tree sought to provide consumers with a "treasure hunt" of discretionary items. They scoured closeouts/liquidation sales and focused on consistently providing an assortment of seasonal goods like decorations (Easter, Halloween, Thanksgiving and Christmas are the busiest times of year) to provide an ever-changing assortment. To provide compelling value, buyers evaluated as much merchandise as possible using 2 simple rules: (1) perceived value >$1, (2) no junk. This combination led to an assortment that consistently delivered what co-founder Macon Brock described as the "wow factor" and established Dollar Tree as king of the treasure hunt.

Negotiating leverage: Unlike consumables, discretionary items fall out of style/season leaving vendors and other retailers desperate to unload unsold merchandise at almost any price. Dollar Tree buyers offered a lifeline but, to maintain viable economics, refused to pay more than 65c/unit (and often less) after tax, shipping, and other expenses; the fixed-price model provided credibility to buyers' take-it-or-leave-it offers and, by extension, negotiating leverage.

Direct global sourcing: As the store network expanded to bring the treasure hunt to more markets, demand began to outstrip the supply of viable merchandise available domestically, so buyers began to scour the globe for value. As Brock describes in his 2017 biography "One Buck at a Time", they found exactly what they were looking for at China's Import and Export fairs: *"this was not the sort of stuff anyone back home would associate with a dollar store. This was merchandise of real quality and usefulness, priced so we could buy it, pay to ship it, cover the duty costs of landing it in the States, and still achieve a spectacular margin. It might be mind-boggling to think we could buy anything of lasting value for 38-40c, but we could since we were buying in large quantities".* Over time, Dollar Tree developed direct relationships with factories across Asia by traveling far beyond major population centers. Brock describes Dollar Tree as *"the Indiana Jones of retail….we went shopping around the world for merchandise without markups. Buyers for Walmart weren't getting in a car and driving for hours on dirt roads to find these rural factories"*.

Design-to-value sourcing: Due to their growing scale and order quantities, buyers were able to work directly with suppliers to design products that appealed to American tastes while stripping out unnecessary costs in production, packaging, and shipping (ie. smaller products and tighter packaging to minimize volumetric weight). Margins of 55-60% were common on items sourced from Asia, considerably higher than those sourced in the US, and customers were shocked by the value. Brock explains, *"it was a reminder that there is no relationship between the price on a piece of merchandise in a department store and what it cost to make. A high-end, handmade import can carry a stiff price here at home, but then ten thousand miles away, in the village where it originated, that ten-, twenty- or even thirty-dollar item might be worth just pennies"*. Dollar Tree has never stopped developing this sourcing model, which has become critical to maintaining a treasure hunt experience that competitors can't match. They currently source 40-42% of their merchandise abroad and were America's 8th largest importer in 2020 (according to the Journal of Commerce), ahead of companies like Nike and Ikea (and 3x more than their rival Dollar General).

Consumables: the popularity of the treasure hunt model and their unique sourcing model led to explosive store growth; Dollar Tree opened its 3,000th store in 2006 just 20 years after it was founded (Dollar General took 47 years). While still much smaller than Dollar General and Family Dollar, their relative scale disadvantage was narrowing, and their growth rate made them an attractive partner for consumables vendors. Dollar Tree began expanding its consumables assortment in the 90s with positive results; in addition to increasing the size of the average basket, new customers were attracted, and traffic surged. Brock explains, *"everyday needs such as snacks, sodas, candy, kitchen cleaners, toothpaste and shampoo brought people through the doors at greater frequency… we reasoned that we could make ourselves a convenient alternative to Walmart if we just carried a few must-haves"*. More traffic meant more opportunities to sell high-margin discretionary merchandise, so management continued to expand the assortment into shelf-stable food and eventually installed coolers in all its stores. Today, consumables range from 45-50% of sales depending on the quarter and remain a critical driver of footfall.

Today the key differences between Dollar Tree and Dollar General/Family Dollar are: (1) higher discretionary mix and consequent targeting of low- and middle-income consumers with stores that are predominantly suburban (2) slightly larger stores with no planograms to provide managers with flexibility in delivering a treasure hunt that resonates with consumers, (3) 40-42% of merchandise directly imported compared to 15-17% at Family Dollar and 9% for Dollar General and (4) more limited selection of consumables due to lower price point.

Ultimately, despite taking a totally different path, Dollar Tree has established itself as a leading dollar store concept that offers the same value and convenience as its traditional peers in addition to a treasure hunt which, due to higher gross margins, allows the concept to operate with the highest operating margins in the industry (~14% LTM v ~8% at DG). Per Rick Dreiling, "a well-run Dollar Tree is a very powerful store. It is the only place in my career where I've ever seen a $200,000 Mercedes sitting next to a $12,000 beat-up Acura, and both those customers are in the store shopping it".